

DEMOCRATIC DEBATE

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If you want Israelis to favor peace negotiations, let them trade stocks

By **Sam Winter-Levy**

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Two weeks ago, after Palestinian gunmen killed an Israeli soldier, Israel launched one of the fiercest aerial assaults on Gaza since the 2014 war. The hostilities followed months of tension, including Palestinian rocket fire against Israeli communities and waves of Israeli airstrikes on Hamas positions in Gaza. After three wars in the past 10 years, many believe a fourth war between Israel and Hamas looms. With the peace process at an impasse, the conflict seems intractable.

But new research suggests a possible way forward. In [a new working paper](#), [Saumitra Jha](#) of Stanford's Graduate School of Business and [Moses Shayo](#) of Hebrew University found that giving Israelis a short, intensive opportunity to trade stocks made them much more willing to negotiate with the Palestinians. Involvement in the stock market made Israelis less likely to vote for harder-line, right-wing parties, especially Prime Minister Benjamin Netanyahu's incumbent Likud party; more supportive of a two-state solution, and more willing to make concessions in exchange for peace. And the effects lasted: A full year later, the changes in people's voting preferences persisted.

The hypothesis: Israelis would become more pro-peace as they became more financially aware

The idea that trading can make war less attractive dates back at least as far as [Montesquieu](#). "Commerce is a cure for the most destructive prejudices," he wrote in 1748. "Peace is the natural effect of trade." Jha and Shayo hypothesized that one way that commerce, and financial markets in particular, can reduce conflict is by making people more aware of the broader economic costs of war — costs they may not have otherwise noticed.

The Israeli-Palestinian conflict has undoubtedly wrought huge economic damage. According to the Rand Corp., a two-state solution would increase Israelis' wealth by \$123 billion and Palestinians' by \$50 billion over 10 years. By contrast, if widespread violence returns, by 2024 Israel's per capita gross domestic product would fall by 10 percent, and the West Bank's and Gaza's by 46 percent.

If both sides have so much to gain, why has reaching a peaceful settlement been so difficult? Much of Israeli politics, Jha and Shayo maintain, involves weighing the risks and returns of the status quo against those of making concessions for peace. Since most Israelis are not active investors, they have little direct exposure to the broader economic costs of the conflict, leading them to underestimate the risks of the status quo. Jha and Shayo theorized that people exposed to financial markets might become more aware of these economic risks — and, perhaps, more willing to consider concessions in exchange for peace.

Here's how they did their research

A month and a half before the 2015 Israeli elections, the researchers randomly assigned 1,345 Jewish Israeli voters to either a treatment or a control group. Within the treatment group, roughly 400 participants received Israeli stock; another 400 were given stocks from the Palestinian Authority; and roughly 200 received vouchers to invest in an index fund. The researchers encouraged the participants to actively trade once a week. Throughout the seven-week study, the researchers asked the participants about their attitudes toward peace negotiations and their voting preferences.

At the beginning of the study, the people in the control group and those who were trading stocks had similar political attitudes and voted in more or less the same way. But by the end of the study, the people who had traded stocks were roughly five percentage points less likely to vote for the more hawkish Likud party and four to six percentage points more likely to vote for parties that support restarting the peace process. The effects were similar whether participants were given Israeli stocks or Palestinian ones.

One might think people changed their minds for self-interested financial reasons. Peace overtures tend to raise both Israeli and Palestinian asset prices, so people holding stock on the day of the election might have a direct material incentive to vote for parties that favor the peace process.

But Jha and Shayo suggest this is not the real story. The effects of trading were just as strong among participants who divested all their stocks before the election — and so had no personal financial stake in the result.

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In other words, people probably weren't changing their political views because they stood to gain personally, but because they had learned about the broader economic costs of the conflict. "Individuals exposed to financial markets," the researchers conclude, "develop different policy preferences over peace initiatives. They increase their support not only for the general principle of a two-state solution, but also for specific, and costly, concessions for peace."

So attitudes changed. But are these changes significant?

Let's put the magnitude of Jha and Shayo's findings in context. These participants' attitude changes are roughly the same as those found by previous researchers who studied how changing security risks affect Israeli voting patterns. In one [2014 study](#), for example, political scientists Anna Getmansky and Thomas Zeitzoff found that being in the range of Palestinian rockets increased right-wing vote share by two to six percentage points. [A 2008 paper](#) by Claude Berrebi and Esteban F. Klor found "the occurrence of a terror attack in a given locality within three months of the elections causes an increase of 1.35 percentage points on that locality's support for the right."

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Jha and Shayo suggest that, with conventional diplomatic approaches to the Israeli-Palestinian peace process looking increasingly hopeless, those who want peace may wish to consider alternative ideas. Providing people with resources earmarked for investments in local stock, which can only be sold gradually over time, may be one such alternative.

“Beyond the direct aid provided, such policies might potentially lead recipients to . . . take more account of the gains and risks of conflict and peacemaking to society more generally.” If designed well, Jha and Shayo conclude, “financial exposure may provide a useful channel for fostering peace.”

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